

# administration in the LGPS

A guide for pensions authorities



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CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our members and trainees work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

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Aon's public sector retirement team specialise in providing advice in relation to the Local Government Pension Scheme (LGPS), police and fire schemes and the public services schemes of offshore Governments. They also advise employers in relation to public service pension schemes including the Police and Fire schemes, LGPS, the NHS Pension Scheme, the Teachers' Pension Scheme and the Principal Civil Service Pension Scheme (PCSPS).

# \ foreword

For many years the Local Government Pension Scheme (LGPS) was relatively simple with benefits based on a final salary and the number of years an individual was a member. Changes in accrual rates, changes in taxation and the move to a scheme based on career average earnings have led to a significant increase in the complexity of the scheme. Recruiting experienced pension people has proved an added difficulty resulting in our pension administrators being placed under increasing pressure. While the management of pension fund assets and the introduction of investment pools are critically important, it often means that pensions administration does not get the attention or resources it deserves. However the LGPS only exists to administer and pay benefits to its scheme members. The member experience is paramount. The purpose of this insight is to raise the profile and awareness of the pensions administration function.

Within the public sector environment there is also continuous pressure to drive down costs and the administering authorities of local government pension funds have not been able to avoid this pressure. While there is much good practice within the LGPS, the CIPFA Pension Panel has become increasingly concerned that in some instances the pensions administration function may not be operating as effectively as it should be. The guide is timely given the increasing focus by the Pensions Regulator on the need to deliver effective and efficient administration.

This insight has been written to assist senior officers, committee and board members to better understand how they can oversee the delivery and quality of administration and communications within their administering authorities, with a view to identifying where improvements may be needed.

I welcome this insight as a key piece of the LGPS jigsaw. It has been developed by Aon and supported by Neil Sellstrom (CIPFA Pensions Technical Manager) on behalf of the CIPFA Pensions Panel.

The Panel would like to thank Karen McWilliam, Catherine Pearce, Craig Payne and other colleagues at Aon for their contributions to the guidance.

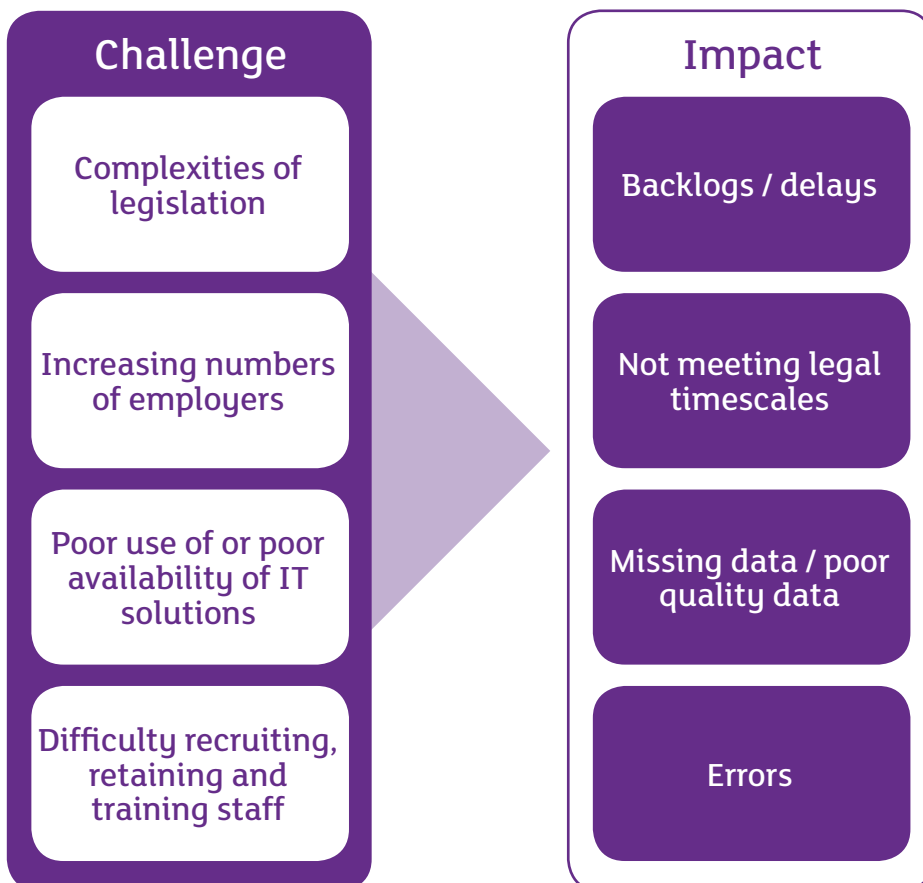
**Mike Ellsmore**

Chair, CIPFA Pensions Panel

# what are the challenges?

## What are the administration and communication challenges?

Administration teams have been faced with some major challenges in recent years. We have seen evidence from some LGPS administering authorities that the amount of 'tasks' having to be dealt with has doubled in the last two or three years. Given these challenges, it should not be a surprise that most administering authorities are experiencing some of the areas of impact highlighted below (and this is by no means an exhaustive list).



Source: Aon

## What is your role?

Each administering authority has a legal responsibility to maintain and manage their LGPS fund. This role is referred to as the scheme manager in the Public Service Pensions Act 2013. Although these legal responsibilities lie with the organisation as a whole, they are usually delegated to committees, sub-committees and/or senior officers. The local pension board has a legal responsibility to “assist the scheme manager” in securing compliance with its obligations and so is expected to work closely with those who are managing the LGPS fund ensuring that those responsibilities are met. A key part of this role is also ensuring that the Pension Regulator’s requirements are met, many of which are focused on efficient and effective administration.

Consequently, senior officers and committee and board members have a collective responsibility for the proper governance of the fund, including administration and communications matters. Key steps in dealing with these administration challenges should include:

- ensuring you have **administration and communications strategies** in place and that they are regularly reviewed, providing clarity on the fund’s aims and objectives including how these will be monitored
- **engaging** with your administration team. Encourage **transparency** and be supportive
- **identifying the current challenges** your administration teams are faced with – for example backlogs, data gaps, poor satisfaction scores or lack of time/resources to develop efficiencies and improvements
- **developing a plan** with clear actions and timescales to overcome the current challenges. This should be part of the fund’s business plan and is likely to involve some or all of the following: reviewing priorities, increasing resource, implementing new systems or procedures and outsourcing some or all of the rectification
- getting regular updates showing **progress against the action plan** to ensure your remedial work is delivering as expected
- ensuring you are provided with information on a regular basis, and you are **monitoring** against your fund’s aims and objectives as well as the legal requirements. This will mean you can more quickly identify issues as they arise, as well as seeing where performance is strong. Suggestions of what you should monitor are included in this document.

You should accept that there is no silver bullet. Existing backlogs and data problems could take many months or even years to resolve, particularly where recruitment and training are required.

But it is critical that a clear plan of action is in place with targets, timescales and resources clearly identified.

# foundations and monitoring

## Strong foundations – strategies and business planning

The fund's administration and communication strategies are critical to setting the aims and objectives that the administration teams need to focus on. The administration strategy should clarify how administration will be delivered as well as confirming the responsibilities of the various stakeholders, and particularly the employers of the fund. The communications strategy should confirm how you will communicate with the key stakeholders, as well as clarifying how much focus will be put on areas such as electronic communications. The strategies should explain how the aims and objectives will be measured on an ongoing basis. You should ensure both strategies are regularly reviewed and that achievement of the aims and objectives are regularly monitored.

The next part of the jigsaw is the fund's business plan. This should be agreed at least annually and it will set out the key steps to delivering the administration and communications strategies (as well as the other strategies of the fund) together with the associated budget. This should confirm the key projects and tasks for the administration teams in the forthcoming year or longer, including any system or process changes that may be required to meet the fund's strategies and any changes or projects required as a result of national initiatives or regulatory changes. The business plan provides direction for the administration team, so they know the areas of focus for the forthcoming period.

## Regular monitoring – what should you be looking for?

The world of administration is complicated and therefore you should be receiving regular monitoring updates to help you identify if things aren't going as planned. Here are some key areas we recommend that you ensure you receive as a minimum. The level of detail provided might vary depending on whether the information is being considered by a pension committee, a local pension board or senior officers. For example, the pension committee may wish to receive something with less detail, albeit they should still be made aware of areas of concern.

## 1. Are legal deadlines being met?

There are many legal timescales that the administration team should be meeting. There is no flexibility in these timescales and the administering authority should be doing everything it can to meet them. It may be impractical to expect reporting against all the legal timescales, but some of the key ones are illustrated below with sample data which shows the specific process, the legal timescale and the performance in the month. The data should be supplied with some context eg reasons why the legal timescale has not been met and what is being done to improve the position. This information may highlight breach situations (see 4.).

Process	Legal requirement	Total number completed	% achieved in legal deadline
		April 2018	
Send a notification of joining the LGPS to a scheme member.	Two months from date of joining the scheme), or if earlier within one month of receiving jobholder information where the individual is being automatically enrolled/re-enrolled.	256	99%
Inform a member who left the scheme of their leaver rights and options.	As soon as practicable and no more than two months from date of initial notification (from employer or from scheme member).	49	99%
Obtain transfer details for transfer in, and calculate and provide quotation to member.	Two months from the date of request.	18	95%
Provide details of transfer value for transfer out, on request.	Three months from date of request (CETV estimate).	25	100%
Notify the amount of retirement benefits.	One month from date of retirement if on or after normal pension age or two months from date of retirement if before normal pension age.	40	97%
Provide a retirement quotation on request.	As soon as is practicable, but no more than two months from date of request unless there has already been a request in the last 12 months.	33	97%
Calculate and notify dependant(s) of amount of death benefits	As soon as possible but in any event no more than two months from date of becoming aware of death, or from date of request by a third party (eg personal representative).	9	100%
Provide all active and deferred members with an Annual Benefit Statement	By 31 August each year.	12358	96%

## 2. Is the administration team meeting the fund’s agreed internal target timescales?

The majority of existing timescale monitoring that we see falls within this category. This relates to the internal timescales for work carried out by the administration team, usually focusing on the period from when all data is received (for example, from the employer or scheme member) to when the administration team complete that task. It is good practice to have specific timescales and targets for specific processes carried out by the administration team.

A range of target timescales should be determined by each administering authority and it is good practice for them to be included, or at least referred to, in a fund administration strategy. The following data illustrates some key processes, sample fund targets and performance within a month. Again, the data should be accompanied by some explanation where targets are not met.

Process	Administration team target	Target %	Total number completed	% achieved in admin team deadline
			April 2018	
Send a notification of joining the LGPS to a scheme member.	15 working days from receipt of all information	90%	256	97%
Inform a member who left the scheme of their calculated benefits (refund or deferred).	15 working days from receipt of all information	90%	49	99%
Obtain transfer details for transfer in, and calculate and provide quotation to member.	20 working days from receipt of all information	90%	18	92%
Provide details of transfer value for transfer out, on request.	20 working days from receipt of all information	90%	25	100%
Notify a member of final amount of retirement benefits (post commutation).	Five working days from receipt of all information	95%	40	95%
Providing a retirement quotation on request.	10 working days from receipt of all information	90%	33	96%
Calculate and notify dependant(s) of amount of death benefits.	Five working days from receipt of all information	95%	9	98%



### 3. Are total turnaround times being met?

Looking at the data in 1 and 2 above alone does not necessarily provide you with a true indication of what your scheme members' experiences are. For example, how long are scheme members waiting to receive the calculation of their deferred benefits if they resign? Even where the legal timescales cover the member experience, you may wish to set shorter timescales or other targets for specific processes carried out for your fund. Again, these should be included or referred to within the fund's Administration Strategy. The following data illustrates some key processes, sample fund targets and performance within a month:

Process	Overall process target	Target %	Total number completed	% achieved in overall process target
		April 2018		
Send a notification of joining the LGPS to a scheme member.	30 working days from date of joining	90%	256	96%
Inform a member who left the scheme of their calculated benefits (refund or deferred).	40 working days from date of leaving	90%	49	97%
Obtain transfer details for transfer in, and calculate and provide quotation to member.	40 working days from date of member's initial request	90%	18	94%
Provide details of transfer value for transfer out, on request.	40 working days from date of request	90%	25	100%
Notify a member of final amount of retirement benefits	20 working days from date of retirement	95%	40	91%
Providing a retirement quotation on request.	15 working days from date of request	90%	33	93%
Calculate and notify dependant(s) of amount of death benefits.	20 working days from date of death	95%	9	96%

## 4. Breaches and errors

Whenever an administering authority fails to do something it is required to do by law, it is good practice that it should be included in the fund's 'breaches of the law' register, regardless of whether the breach should be reported to the Pensions Regulator. This register should include the more commonly recorded breaches such as employers failing to pay contributions to the fund (either on time or incorrect amounts) and not issuing all annual benefit statements.

It should also include cases where a legal timescale is not met (some of which will be included in 1. above, but others could apply including HMRC deadlines such as pension savings statements) and other situations such as a result of incorrect benefit calculations. It is worth extending the reporting to include other errors and omissions, for example as identified through internal dispute resolution procedures (IDRPs), as these can highlight quality issues or a specific area of concern that needs to be resolved.

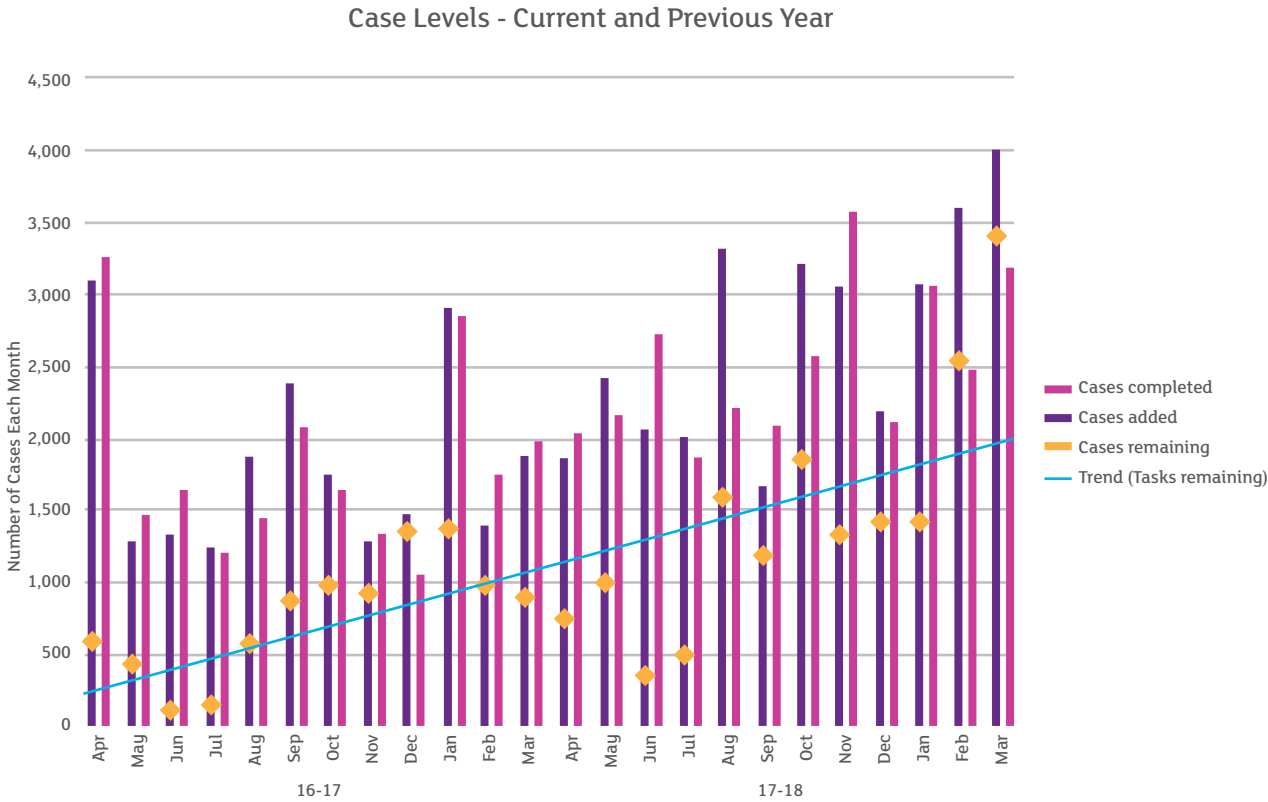
### **The Pension Regulator's requirements in relation to breaches of the law**

The Pension Regulator's Code of Practice 14 relating to the governance and administration of public service pension schemes places a lot of focus on the requirements to manage breaches of the law. In this regard a breach of the law relates to a legal duty relevant to the administration of the scheme under the Pensions Act 2004 which is not being complied with. This Regulator's Code of Practice reminds us that we should:

- have appropriate processes in place to consider whether a breach of the law is materially significant to the Pensions Regulator and therefore should be reported to it (which is a statutory requirement)
- have a system to record breaches even if they are not reported to the Pension Regulator.

## 5. What new tasks are coming in, how many are being completed and how many are outstanding?

The information you will receive in relation to measures 1, 2, and 3, above focus on the tasks and processes the administration team are completing. What they don't show are the cases that are still waiting to be processed; nor do they highlight the amount of work being received by the team. It is therefore important to monitor these two further areas by comparing them with the number of cases being completed each month. It is particularly important to understand any trends over time and whether there are any explanations so you can assess the likelihood of the situation continuing. One example of how this information can be reported is shown below.



Source: Aon

## 6. What do scheme members and employers think?

Most administering authorities will have administration and communications strategies with specific objectives that can best be measured by customer feedback – relating to both scheme members and employers. It is important for administering authorities to gather and consider feedback on a regular basis (at least annually, if not ongoing).

One sample of scheme member feedback against fund objectives is shown below. In this example, the fund has an objective of 80% of responses being ‘agree’ or ‘strongly agree’.

Scheme member survey		Strongly disagree	Disagree	Agree	Strongly agree	>Agree
Admin	...offers documentation, guidance and information in a professional manner?	8.7%	4.3%	52.2%	34.8%	87.0%
	...is proactive in their approach to provide a service to members?	8.7%	8.7%	52.2%	30.4%	82.6%
	...gives an appropriately timed service with regular updates?	13.0%	8.7%	60.9%	17.4%	78.3%
	...is customer focused and meets the needs of its members	8.7%	4.3%	60.9%	26.1%	87.0%
	...has provided a high quality service throughout your membership?	8.7%	8.7%	43.5%	39.1%	82.6%
Comms	...promotes the scheme as a valuable benefit and provides sufficient information so you can make informed decisions about your benefits?	15.4%	7.7%	46.2%	30.8%	76.9%
	...communicate in a clear and concise manner?	15.4%	7.7%	46.2%	30.8%	76.9%
	...use the most appropriate means of communication?	7.7%	15.4%	38.5%	38.5%	76.9%
954 surveys issues / 132 returned (13.8%)						

Source: Aon

## 7. What other data issues are there?

The Pensions Regulator is putting a lot of focus on data issues in 2018 and expects all public service pension scheme administrators to have improvement plans in place including [facilities to measure common data and scheme specific data](#).

The Scheme Advisory Board will be developing a template for LGPS scheme specific data that all administering authorities will be expected to report on from 2019, in addition to common data. In the interim, all administering authorities should have developed their own approach to scoring of the quality of their scheme specific data. Senior officers, committee and board members should ensure they regularly see the fund’s data improvement plan which should highlight all data issues and the plan of action to rectify them where appropriate, together with progress against that plan.

## 8. What other objectives and aims are in your strategies? Are you receiving reporting to identify if they are being achieved?

All administering authorities must, by law, have a communications policy in place and it is also best practice to have an administration strategy in place. Within both of these, you should have a number of aims and objectives. It is important that any aims or objectives you have are being appropriately measured and monitored. You should review those aims and objectives against the monitoring information that you receive from the administration team to ensure that is the case, and ensure that a plan is put in place where objectives are not being met.

## 9. Are employers meeting their requirements?

Many of the requirements imposed on administering authorities are only achievable if the scheme employers do their part of the process correctly and on time. Administering authorities should set out to their employers what they are required to do and when, and this is commonly included in the administration strategy. The strategy will usually also set out the fund's policy on recharging costs to those employers who cause additional work for the administering authority by sending incorrect or late data.

It is therefore important to monitor the performance of employers against the requirements set out in the strategy and you should ensure that you receive information about this monitoring and include in your action plan where an employer is not meeting requirements. This can be presented in various ways and some of it may be implicit in the reporting elements outlined previously.

## 10. Is the administration team delivering on the priorities on the business plan?

Finally, every year the pension committee should be asked to approve a business plan outlining the key priorities for the forthcoming period – best practice would be a rolling plan covering at least three years, updated on an annual basis. This should include administration and communications elements, such as:

- review of processes due to changes in legislation
- implementing new systems
- procurement of suppliers
- any other known projects (a recent example is GMP reconciliation)
- any projects to clear backlogs or other issues identified.

As a matter of course, you should receive regular information showing whether these priorities are being delivered to the planned timetable and to budget.

## What if administration is outsourced or delivered through a shared-service arrangement?

Whether your administration service is delivered internally (within the administering authority), outsourced to a private sector contractor or provided through a shared-service arrangement, the responsibility for the proper governance of the fund, including administration and communications matters, still lies with the administering authority. Accordingly, you would expect all of the points highlighted above to equally be included in reporting from any external provider or shared service partner of your administration services. A close working relationship is fundamental to ensuring that your administration provider is able to continually meet legal and other requirements, particularly given you will have no or little direct control over the resources available to deliver your administration services.

It will be extremely important to ensure that the information to be included in reporting, and the level of detail expected, is clearly set out when carrying out any tender or appointment process. This should ensure full details of all fund specific service standards or other targets (albeit noting that these may move during the period of the contract). This should also set out expectations in relation to rectification where an administration provider is failing to meet requirements.

# \ conclusion

Administering authorities should ensure they understand the administration challenges they face and meet their fiduciary responsibilities to their scheme members, as well as working with their employers to ensure they also understand and meet their responsibilities. The level of scrutiny on LGPS funds has never been higher, both from internal sources such as local pension boards but particularly from external sources such as the Pensions Regulator, the Pensions Ombudsman and the national press.

It is therefore essential that administering authorities and their fund employers have the necessary capacity to meet these challenges, otherwise there is a significant risk of censure and the subsequent reputational damage at local and national level and, more concerning, of scheme members not receiving accurate benefits paid on time. The period of time required to recruit and train staff should not be underestimated. It is hoped that this guidance informs authorities with a view to ensuring robust governance arrangements are in place in relation to administration and communications on an ongoing basis.



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